

Exporting Prudently and Successfully – Evaluating and Mitigating International Business Risks

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There are risks in every business. But if you know what the risks are, you can try to mitigate them. That is why we have property, liability, and flood insurance. When doing business abroad, the risks may look ominous and be different, but that does not mean you should stay at home. Rather, you should clearly identify the risks and then figure out the best way to protect yourself against them. Let's look at some of these international business risks.

Political

Obviously, every country has its own political system. Some governments are stable; others are less so. There are professional organizations that evaluate country political risk, but you can do some research to understand a country's basic political structure and history. Look up a country in *The World Factbook* at www.cia.gov, read "Background Notes" on each country on the State Department's site at www.state.gov, and check out some commercial sites, such as www.countrywatch.com and www.aigonline.com. You can also monitor news in newspapers around the world at the World News Network: www.wn.com.

The U.S. Commercial Service and the U.S. Department of State prepare useful guides for American businesses to facilitate their international trade and investment. Each *Country Commercial Guide* offers an overview of a particular nation, including political, trade, investment, and regulatory issues. These guides are generally available for downloading within each country's pages on www.buyusa.gov (select the country to which you wish to export from the drop-down menu on the home page). They can also be found, along with other country- and industry-specific information, at www.export.gov (select "Market Research" from the left-hand column of the home page, and then select the "Country and Industry Market Reports" link).

Economic

Every country has its own economic history of growth, inflation, productivity, monetary policies, and business cycles. A foreign country might present a greater economic risk, or a smaller risk, than doing business in the United States, but certainly it will be different. The country's own economy could be tied closely to one industry (mining, for instance), or to that of a neighboring country (Mexico's reliance on the U.S. economy, as an example). Also, a country might be open to embrace free trade like Singapore does, or it might try to protect its market with import quotas or high tariffs. Whatever the case, it is important to realize that when you go abroad to do business, "you aren't home anymore."

Commercial

There is a commercial risk whenever you conduct business. Agreed, it might be easier to do a background check on a business in New York City, than one in Johannesburg. It is possible to order credit reports on potential foreign buyers from such organizations as Veritas, Graydon, Dun & Bradstreet, and Standard & Poor's. Even more important, you can insure your overseas accounts receivable against political and commercial risk through such organizations as the U.S. Export-Import Bank (www.exim.gov) and large insurance companies. Credit insurance can help you get the order in the first place by allowing you to offer attractive payment terms, and it generally will permit you to borrow against the overseas accounts receivable, which would be considered "unbankable" collateral, if uninsured. It also should give you some peace of mind, knowing that any loss would be significantly reduced in case of default (normal coverage is 90 to 95 percent of the outstanding, invoiced amount). The cost? Typically less than three-quarters of 1 percent to insure your accounts receivable worldwide: a real bargain.

The International Company Profile program of the U.S. Commercial Service helps U.S. companies evaluate potential business partners by providing a detailed report on overseas companies that have been personally visited by a trade specialist or commercial officer of the U.S. Commercial Service. Through the service, clients can request answers to detailed questions about overseas companies on a variety of issues and receive expert advice from commercial specialists about the relative strength of the firm in its market and its reliability, among other things. To get additional information about these and other services that help American firms find foreign partners, contact the nearest U.S. Export Assistance Center or visit www.buyusa.gov.

Regulatory

Import regulations vary by product and country, so make sure to check ahead of time to ensure that your products qualify for market entry. This is especially important for food and pharmaceutical items. However, regulations can govern everything from certifying that your products meet industry standards (required to obtain CE marking, which permits you to sell in the European Economic Area), to meeting electrical standards, to properly labeling your products, to getting ISO certification. A good importer should be able to alert you to these requirements and the procedures for obtaining any required certification, as should the U.S. Commerce Department's Export Assistance Center staff in your area.

Legal

Every country has its own legal system. Many countries operate under civil law, instead of common law as practiced in the United States. Any firm that is engaged in international business needs to investigate the local legal structure. An exporter may say that the agreements he signs are under the laws of his own state, but if a dispute over a distribution agreement takes place in Italy, you can be sure that Italian law will prevail in any enforcement action. It is critical to understand the laws of the country in which you operate, as well as international arbitration options. Also remember to protect your intellectual property (copyrights, patents, trademarks) by properly registering it in the

countries where you plan to do business. How countries enforce their laws also will vary greatly by country and might well influence your decision to pursue certain markets.

Financial

Two separate financial risks confront an exporter: the method of payment and foreign exchange risk. For example, payment under a letter of credit has much less risk than an open-account sale or payment by an international check. With regards to foreign exchange risk, most U.S. exporters continue to be successful in requiring payment in U.S. dollars, pushing the foreign exchange risk onto their buyers. However, if you agree to accept payment in a foreign currency, there will be a risk associated with the exchange rate vis-à-vis the dollar, which can fluctuate widely over time. Fortunately, there is a way to protect yourself against this risk, by buying a forward contract at an international bank. A forward contract is an obligation to deliver and exchange a certain amount of foreign currency on a future date, but at a pre-determined exchange rate. This will protect you against any adverse fluctuation in the exchange rate, between the time of obtaining the purchase order and getting paid for the shipment. In order to mitigate these financial risks, make sure you have an international banker as a constant resource and valued member of your export team.

Cultural

When you deal with people in other countries, there is always the risk that you will do something offensive, probably through a lack of understanding. A project or deal can easily be terminated over a cultural *faux pas*. In addition, a country's culture might determine if your product will even be accepted in a market and, if so, how it will need to be marketed and packaged. Make sure you understand the cultural nuances before entering a new market. Some consultants specialize in providing cross-cultural advice. Two Web sites with basic information on cultural issues are www.executiveplanet.com and www.culturegrams.com.

Shipping

Piracy on the high seas has increased in the past few years – primarily in Southeast Asia and off the coast of Somalia. In 1999, cargo ships were boarded more than 150 times, merchandise was stolen, and lives threatened. While not the norm, shipping risks always exist. Cargo planes and ships do not always reach their destinations. Merchandise can be lost or damaged, which is why all shipments are covered by insurance. A good freight forwarder will help you address this risk, because most can arrange directly for such insurance.

While these are some of the risks that you will face when doing business abroad, none of them should discourage you if your company truly wants to expand internationally. Rather, a plan should be in place to methodically evaluate and mitigate each risk. Your success in the international marketplace may well depend on it.